

Internal Revenue Service

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Department of the Treasury

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Date:

January 24, 2011

LEGEND:

Company =

Designer =

Program =

V =

W =

X =

Y =

Z =

Dear :

This is in reply to your request for a ruling that Company is not subject to information reporting requirements under § 6041 of the Internal Revenue Code for reward points that enrollees in Company's Z receive for participating in the Program.

FACTS

Company is the publicly traded parent company of an integrated group of X companies. Company offers a variety of X to Y through Z.

Company affords enrollees in each of its Z the option to receive reward points as incentives for engaging in V. Enrollees can use the reward points to purchase products and services from third-party vendors through Company's arrangement with Designer, which designs and operates incentive rewards programs. Under the Program, enrollees may redeem their points with merchants, who will provide them with goods and services at a discounted price. Enrollee participation in the Program is voluntary, and there is no fee or cost to participate. The Program will not reduce the premium costs that enrollees pay for X; premiums are the same whether or not an enrollee participates in the Program.

Enrollees may terminate participation in the Program at any time. Enrollees will forfeit points if they do not use them within 2 or 3 years or if they terminate participation in the Program.

Company represents that the reward points are not transferable, cannot be redeemed for cash, and do not have cash value. Enrollees may use the points only to purchase goods or services, or print out coupons, offered by third-party vendors through Company's arrangement with Designer. Designer will negotiate with selected vendors who agree to sell their goods or services to enrollees at negotiated discounts. The amount of a discount awarded for reward points will vary, depending on the discretion of each vendor. Company will not know when, if ever, enrollees redeem their points, and will not know the amount of savings that enrollees realize when they redeem their reward points.

Company does not contract with vendors to participate in the Program. Company does not pay vendors directly or indirectly to participate in the Program. Company does not receive payments from vendors to participate in the Program.

Company will maintain an online portal with a personal program account that each enrollee may access. The portal will display the number of accumulated points, new opportunities to be awarded points, and redemption opportunities for points.

LAW AND ANALYSIS

Section 6041 requires every person engaged in a trade or business to (1) file an information return for each calendar year in which the person makes in the course of its trade or business payments to another person of fixed and determinable income aggregating \$600 or more, and (2) furnish a copy of the information return to that person. See § 6041(a) and (d).

Section 61(a) provides that, except as otherwise provided by law, gross income means all income from whatever source derived. Under § 61, Congress intends to tax all gains and undeniable accessions to wealth, clearly realized, over which taxpayers have complete dominion. *Commissioner v. Glenshaw Glass Co.*, 348 U.S. 426 (1955), 1955-1 C.B. 207.

In this case, the reward points are not transferable, cannot be redeemed for cash, and do not have cash value. Enrollees can redeem points only to purchase at a discount goods and services offered by third-party vendors, not Company. The premiums that enrollees pay for X is the same regardless of whether they participate in the Program. Thus, the Company is merely offering enrollees the opportunity to engage in future discounted purchases of goods and services from unrelated third parties. Therefore, Company is not providing any accessions to wealth under § 61 to the enrollees through the Program's awarding of reward points.

CONCLUSION

Based strictly on the information submitted and the representations made, we conclude that Company is not subject to income reporting obligations under § 6041 by its involvement in awarding reward points under the Program because it is not providing gross income to the enrollees through the Program's awarding reward points.

We do not express or imply an opinion on the federal tax consequences of any aspect of these transactions other than those expressed in the conclusion above.

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

The rulings contained in this letter are based upon information and representations that you submitted under penalties of perjury. While this office has not verified any of the material submitted in support of the request for rulings, it is subject to verification on examination.

Company must attach to any income tax return to which it is relevant a copy of this letter or, if it files returns electronically, a statement providing the date and control number of this letter ruling.

In accordance with the Power of Attorney on file with this office, we are sending a copy of this letter to Company's authorized representative.

Sincerely,

Michael J. Montemurro
Branch Chief
Office of Associate Chief Counsel
(Income Tax & Accounting)